

ATTACHMENT A

SBC Illinois' UNE-Platform is priced below cost -- a fundamentally unsustainable paradigm that is contrary to sound public policy and sound fiscal management.

Approximately 80% of the UNE-Platform cost is attributable to the UNE loop and currently-approved costs for the UNE loop were last reviewed in a proceeding initiated in 1996, using 1996 (or earlier) data.

SBC Illinois has structured this filing so that it can be acted on quickly. We have simplified the filing by removing most of the UNE rates and cost models filed in the (now withdrawn) September 4, 2002 UNE filing. We have also "frontloaded" the filing by including cost studies and other data needed by Staff and other parties to evaluate the filing, and by including the testimony of thirteen (13) fact and policy witnesses. In short, the issues call for speedy resolution and SBC Illinois has structured the filing to facilitate expedited action.

I. Rates For UNE Loop And UNE Platform Are Far Below Cost

UNE-Platform (UNE-P) rates do not cover the cost of providing the UNE-P and, as a consequence, SBC Illinois loses money on each UNE-P it sells to its competitors. This below-cost pricing allows SBC Illinois' principal competitors -- AT&T and MCI WorldCom -- to aggressively resell SBC Illinois services and successfully win the high margin customers. These losses, in turn, make it increasingly difficult for SBC Illinois to invest in the network as it must do to meet its universal service obligations. SBC Illinois is not asking for protection from competition. Rather, it is asking that it be allowed to

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charge compensatory, TELRIC-based rates for UNEs so that competition can continue to develop – but in an economically rational way.

SBC Illinois' UNE-P rates are among the lowest in the nation. These low rates are not necessary to attract competitive entry. Indeed, in states such as Massachusetts, Pennsylvania, Texas, Rhode Island and Nebraska, UNE-P rates are significantly higher than Illinois, (Dr. Aron at 5, 7), yet according to FCC statistics CLECs have achieved penetration rates ranging from 12% to 16%.

At current UNE-P rates, it costs SBC Illinois more to provide UNE-P than it is able to collect from its CLEC customer. More specifically, each UNE-P costs SBC Illinois approximately \$27.43 per line per month using the cost methodology approved by the FCC and reflected in SBC Illinois' new cost studies. Under current rates, however, CLECs are only required to pay SBC Illinois approximately \$12.22. As a result, at today's wholesale prices, SBC Illinois loses approximately \$15.21 per month for each UNE-P line leased to competitors. (Dr. Aron at 8, 32).

Not surprisingly, CLECs, and particularly the two large IXC's – MCI WorldCom and AT&T -- have seized the opportunity to resell these below-cost SBC Illinois services. Also not surprisingly, their aggressive sales efforts have been aimed at the high margin customers, those customers from whom SBC Illinois obtains the vast majority of its profit. Their efforts have been tremendously successful. As SBC Illinois' evidence shows, UNE-P additions net of any losses have averaged about 86,000 per quarter since September 2001, but leaped to about 139,000 in the quarter ending September 2002. (Dr. Aron at 44).

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And this trend is having the largest impact on the high-margin retail customers whose revenue enables SBC Illinois to meet its universal service obligations. AT&T and MCI WorldCom are targeting these high margin residential customers with their calling plans that offer unlimited local/long distance calling at discounted rates. This is a good strategy for the IXCs, but unfortunately it leaves SBC Illinois with the obligation to provide service to the low margin customers *without the corresponding ability to fund network investment from the profit earned on the high margin customers*. This is a fundamentally unsustainable paradigm.

UNE pricing is a key component in the local competition equation, but providing UNEs below cost is having a detrimental effect on the market. Not only does SBC Illinois end up subsidizing the IXCs' successful efforts to win the high margin customers, the low prices discourage meaningful facility-based entry because competitors have no incentive to move off the attractively priced UNE-P offering. To the contrary, under this arrangement even facility-based carriers are encouraged to conserve their capital and shift their focus from a capital-intensive entry to a "low capital" UNE-P entry strategy. Simply put, the below-cost UNE rates thwart the very type of competitive entry that is necessary for sustainable competition.

Clearly, SBC Illinois cannot be expected to fund competitive entry indefinitely. The simple laws of economics will not permit SBC Illinois to fund the very competitors who are winning away the retail customers that support SBC Illinois' continued investment in the network that everyone -- including CLECs -- use. SBC Illinois is the only provider within its service territory with universal service obligations. Meanwhile,

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its competitors use the below-cost UNE-P to "cherry pick" the most profitable customers, and current UNE-P pricing unreasonably accelerates that trend.

SBC Illinois' proposal to revise the UNE-P rate does not involve an immediate review of all three UNEs that make up the UNE-P, i.e., unbundled local switching, unbundled local loops and shared transport. Since the UNE loop is by far the main component of UNE-P – in terms of both cost and functionality – SBC Illinois proposes to limit review of recurring charges in this proceeding to the UNE loop.

In summary, current UNE-P pricing creates an unsustainable business model for SBC Illinois and its customers. The proposed tariff addresses this problem because it contains UNE rates that better reflect current TELRIC costs. It is imperative that these rates be addressed as soon as possible. We request that, after suspension of the revised tariff pages, the Commission expedite the investigation to complete its review within six (6) months rather than the statutory maximum of eleven (11) months. We also request that the suspension occur sooner than the 45 days allowed by law so that an Administrative Law Judge can be assigned and a schedule promptly set.

II. UNE Loop Rates And NRCs Are Ready For Review

SBC Illinois' current UNE loop rates have been in effect since early 1998. These rates were developed based on a cost study performed in 1996, which was in turn based significantly on 1996 (or earlier) costs. These rates are ready for review.

The nonrecurring charges (NRCs) are also ready for review. In two orders issued earlier this year, the Commission stated that a docket should be initiated to establish permanent cost-based NRCs for certain UNE combinations, including existing UNE-P, new UNE-P and certain loop-transport combinations (also known as ~~Enhanced~~ Extended

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Loops or EELs). The CLECs generally agree that these NRCs should be reviewed. The Commission itself has acknowledged that these rates need to be reviewed and they should therefore be included within the scope of the expedited review of the UNE loop.

III. This Filing Has Been Structured For Expedited Review

SBC Illinois has structured this filing for quick action. We have made the filing smaller. While the September 4, 2002 UNE filing addressed approximately 750 rate elements involving seven cost models, this revised UNE filing addresses about 145 rate elements involving just two cost models. We have "frontloaded" the filing. Included with the filing package are detailed cost studies, proprietary cost models and the testimony of thirteen (13) fact and policy witnesses that explain the development of the proposed rates. In a typical case, this testimony would not be filed until *after* the tariff is suspended and *after* the ALJ establishes a procedural schedule – a process that can take more than two months. We have worked with Staff to explain the revised cost studies. This effort included multiple face-to-face meetings to discuss the LoopCat cost model, the development of the revised Shared and Common cost factor and other cost issues. Based on this work, it is SBC Illinois' hope that Commission Staff can act quickly and prepare its report to the Commission for action in early January so that the process can move forward.

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